

Message Text

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PAGE 01 SAO PA 01193 220528Z
ACTION COME-00

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FM AMCONSUL SAO PAULO
TO SECSTATE WASHDC 8459
INFO AMEMBASSY BRASILIA
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PASS COMMERCE FOR MEPD

E.O. 11652: N/A
TAGS: BENC, BR
SUBJ: MAJOR PROJECT: SAO PAULO SEWERAGE

REF: STATE 075671

1. CONGEN OFFICERS HAVE DISCUSSED BID SPECIFICATIONS AT LENGTH WITH U.S. SUBSIDIARIES INCLUDING MANUFACTURERS AND ONE ENGINEERING FIRM. (CONGEN WAS UNABLE TO CONTACT CHARLES TODD OF IBRD SINCE GOB OFFICES WERE CLOSED MARCH 23 AND 24.) OF MOST CONCERN TO THE MANUFACTURERS IS THAT SPECIFICATIONS PRECLUDE BIDDING ON ITEM BY ITEM BASIS BY REQUIRING BIDS ON ENTIRE STAGE OF PROJECT. LOCAL INDUSTRY, INCLUDING U.S. SUBSIDIARIES, HAS THE CAPABILITY OF PRODUCING NO MORE THAN HALF OF THE EQUIPMENT REQUIRED. EVEN IN THE CASE OF LOCALLY PRODUCED EQUIPMENT, MANUFACTURERS DO NOT BELIEVE THAT THE 15 PERCENT DIFFERENTIAL PROVIDED UNDER IBRD GUIDELINES IS SUFFICIENT PROTECTION. THEY ARE PRESSURING THE MACHINERY INDUSTRY ASSOCIATION OF SAO PAULO (SEMESP) TO REQUEST FROM THE MINISTRY OF FINANCE ADDITIONAL PROTECTION UNDER DECREE LAW 1334 OF JUNE 25, 1974 WHICH, IN SPECIAL CIRCUMSTANCES, GRANTS NATIONAL COMPANIES BIDDING ON GOB PROJECTS FULL EXPORT INCENTIVES. THE DIFFERENTIAL FOR NATIONAL FIRMS WOULD, THEREFORE, BE INCREASED

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TO 30-40 PERCENT. MANUFACTURERS ALSO POINT OUT THEY WILL BE UNABLE TO SUPPLEMENT THEIR OWN PRODUCTION WITH IMPORTS BECAUSE SABESP RECENTLY AMENDED THE SPECIFICATIONS TO DENY ALL LOCAL SUPPLIERS EXEMPTIONS FROM TARIFFS AND PRIOR DEPOSIT ON EQUIPMENT IMPORTED FOR THE PROJECT. FOREIGN FIRMS, HOWEVER, REMAIN EXEMPT FROM DUTIES AND THE DEPOSIT. U.S. MANUFACTURING SUBSIDIARIES BELIEVE THEIR ONLY OPTION IS TO BID IN CONSORTIUM WITH FOREIGN FIRMS.

EVEN THEN, THEY BELIEVE, LARGE FOREIGN BIDDERS WITH ACCESS TO FINANCING AND GOVERNMENT SUBSIDIES HAVE THE ADVANTAGE. THEY BELIEVE THAT THE SITUATION IS PARTICULARLY FAVORABLE TO JAPANESE FIRMS ALTHOUGH THEY DO NOT CONTEND THAT THE BID SPECIFICATIONS WERE DELIBERATELY RIGID.

2. BID DEADLINE OF MAY 19 IS JUDGED TOO SOON CONSIDERING THE SIZE AND COMPLEXITY OF THE PROJECT. SABESP IS REPORTEDLY CONSIDERING A 30 DAY EXTENSION ALTHOUGH FIRMS PREFER 60 DAYS UNTIL JULY 19. IF THE DEPARTMENT CONCURS, CONGENHWILL FORMALLY REQUEST AN EXTENSION UNTIL JULY 19/

3. REQUIREMENT FOR ENGINEERING SERVICES APPEARS TO BE A PROBLEM ONLY FOR THOSE MANUFACTURERS WITH NO OR A LIMITED CAPABILITY FOR DESIGNING SYSTEMS. THIS CLAUSE DEFINITELY FAVORS FIRMS WITH LARGE ENGINEERING STAFFS.

4. SIZE OF BID BOND AND COST OF SPECIFICATIONS ARE A ACKNOWLEDGED TO BE CONSIDERABLE BUT NOT OUT OF PROPOJTION TO THE SIZE OF THE PROJECT. IT IS NOT CLEAR, HOWEVER, HOW FOREIGN FIRMS WOULD EFFECT PAYMENT FOR THE BID BOND, WHICH MUST BE IN CRUZEIROS, AND STILL TO BE ABLE TO REMIT THE ORIGINAL DOLLAR AMOUNT. DOLLAR REMITTANCE COULD BE ASSURED BY REGISTRATION WITH THE CENTRAL BANK BUT THIS PROCEDURE COULD DELAY SUBMISSION OF BIDS CONGEN INTENDS TO OBTAIN CLARIFICATION BY SABESP REGARDING DOLLAR REMITTANCE OF BID BOND.

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5. REQUIREMENT THAT THE BIDS BE PRESENTED INHPORTUGUESE OR BE ACCOMPANIED BY AN OFFICIAL PORTUGUSE TRANSLATION WAS CONSIDERED TO BE UNUSUAL FOR A IBRD FINANCED LOAN. REPRESENTATIVES WITH EXPERIENCE IN BIDDING ON PROJECTS WITH IBRD FINANCING NOTED THAT BIDS IN ENGLISH HAVE ALWAYS BEEN ACCEPTED. TRANSLATION REQUIREMENT COULD MEAN, FOR FOREIGN FIRMS, AN ADDITIONAL COST AND DELAY.

6. THERE IS GENERAL SPECULATION AMONG U.S. REPRESENTATIVES WHY THE IBRD IS INVOLVED IN THE SAO PAULO SEWERAGE PROJECT WHEN ONLY A RELATIVELY SMALL PORTION OF THE ENTIRE PROJECT, ABOUT 10 PERCENT, REQUIRES DIRECT FOREIGN FINANCING. IT IS NOTED THAT THE IBRD HAS AMPLE RESOURCES AND IT VERY KEEN ON ENVIRONMENTAL PROJECTS. (CONGEN HAS ALSO NOTED IBRD'S INTEREST IN SUCH PROJECTS IN PRVIOUS REPORT, SAO PAULO 0761, ON FINANCING PURCHASE OF POLLUTION CONTROL EQUIPMENT.) LOCAL MANUFACTURERS ALSO BELIEVE THAT SAO PAULO GOVERNOR PAULO EGIDIO AND HIS AIDES HAD POLITICAL REASONS FOR OBTAINING IBRD FINANCING. THE GOVERNOR'S TERM OF OFFICE EXPIRES NEXT YEAR AND, AS HASHAPPENED IN THE PAST, HIS PROJECTS COULD BE CANCELLED OR DELAYED BY THE NEW ADMINISTRATION EAGER TO MAKE ITS OWN MARK. IBRD INVOLVMENT, HOWEVER, WOULD MAKE A POLITICALLY MOTIVATED DELAYING ACTION DIFFICULT.

7. COPIES OF CONDITIONS FOR SUBMISSION OF BIDS AS AMENDED
ARE BEING POUCHED TO MEPD.
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